



City Council Report

Date: June 21, 2021
To: City Council
Through: Michael Kennington, Deputy City Manager/Chief Financial Officer
Irma Ashworth, Finance Director
From: Ryan Wimmer, Treasurer
Subject: Fiscal Year 2021-22 Secondary Property Tax Rate and Levy

Purpose

This action approves the levy of a secondary property tax on taxable property in the City of Mesa for fiscal year (FY) 2021-22. The proposed FY 2021-22 secondary property tax levy and tax rate are:

Levy = \$45,163,931

Rate = \$1.1319 per \$100 of taxable value

2020 Election

In November of 2020, Mesa voters approved a \$100 million general obligation bond question to fund transportation-related projects in the City. An additional property tax levy of \$3.5 million is needed to pay the debt service on the new bonds once all are issued. This levy is 8% greater than the FY 2020-21 levy (see Figure 1 below).

Because the value of taxable property in the City increased by 7% (rounded from 6.8%) in FY 2021-22, the proposed secondary property tax rate is increased by just 1% (to generate the total required additional revenue of 8%). The annual impact to the typical Mesa homeowner is \$170, an increase of \$10 from the prior year (see Figure 1 below).

Figure 1. Mesa Secondary Property Tax Levy and Rate: FY20-21 to FY21-22

	FY20/21	FY21/22 Proposed	\$ Change	% Change
Tax Levy	\$41.7 million	\$45.2 Million	+\$3.5 million	+8%
Taxable Value	\$3.74 billion	\$3.99 billion	+\$0.25 billion	+7%
Tax Rate	\$1.1171	\$1.1319	+\$0.0148	+1%
Annual Cost to Median Homeowner	\$160	\$170	+\$10	+6%

The increase to the levy due to the 2020 bond authorization is partially offset by each of the following:

- new property being added to the tax rolls,
- bond refunding (refinancing) savings,
- low borrowing costs due to:
 - historically low market interest rates,
 - City general obligation debt being rated AAA (the highest rating) in 2020
- low property tax payment delinquency rates

Property Value Increase

Of the 6.8% increase in taxable property value in FY 2021-22, 4.5% was due to appreciation of existing property and 2.3% from new construction (see Figure 2 below).

Figure 2. City of Mesa Net Assessed Value (NAV): FY20-21 to FY21-22

	FY20/21	FY21/22	\$ Change	% Change
Taxable Value	\$3.74 billion	\$3.99 billion	+\$254 million	+6.8%
<i>Appreciation of Existing Property</i>			+\$168 million	+4.5%
<i>New Property</i>			+\$ 86 million	+2.3%

New property consists of annexations of unincorporated areas within the City and construction of homes, buildings, equipment, etc. that add to the base of property value.

Background

Types of Property Tax

There are two types of property tax in Arizona: primary property tax and secondary property tax. Figure 3 below describes how cities are permitted to use the two types of property tax.

Figure 3. Types of Property Tax for Arizona Cities

Type	Permitted Use
Primary	General city operations
Secondary	Debt service on general obligation bonds approved by voters

The City of Mesa does not currently levy a primary property tax.

Management of the Tax Levy

The City levies a secondary property tax to pay for debt service on general obligation bonds. Unless new general obligation bonds are authorized by voters, or the Council provides direction to alter the levy, the tax rate is adjusted to maintain the same levy from one fiscal year to the next.

Since 2008, ballot language for general obligation bond authorizations approved by Mesa voters has stated that the issuance of the bonds would result in a property tax increase sufficient to pay the annual debt service on the bonds.

The City's practice is to fully adjust the secondary property tax levy in the fiscal year following a successful bond election in order to fund all newly-authorized bonds once issued. However, the City only sells bonds as needed to fund capital projects.

The amount of the levy is intended to fund the annual cost of debt service. State law ([A.R.S. §35-458\(A\)](#)) limits the amount of a secondary property tax levy to projected general obligation debt service due, plus a reasonable delinquency factor. Accumulated fund balance to pay debt service is limited to 10% of the current fiscal year debt service payment.

Projects Funded by Secondary Property Tax Revenue

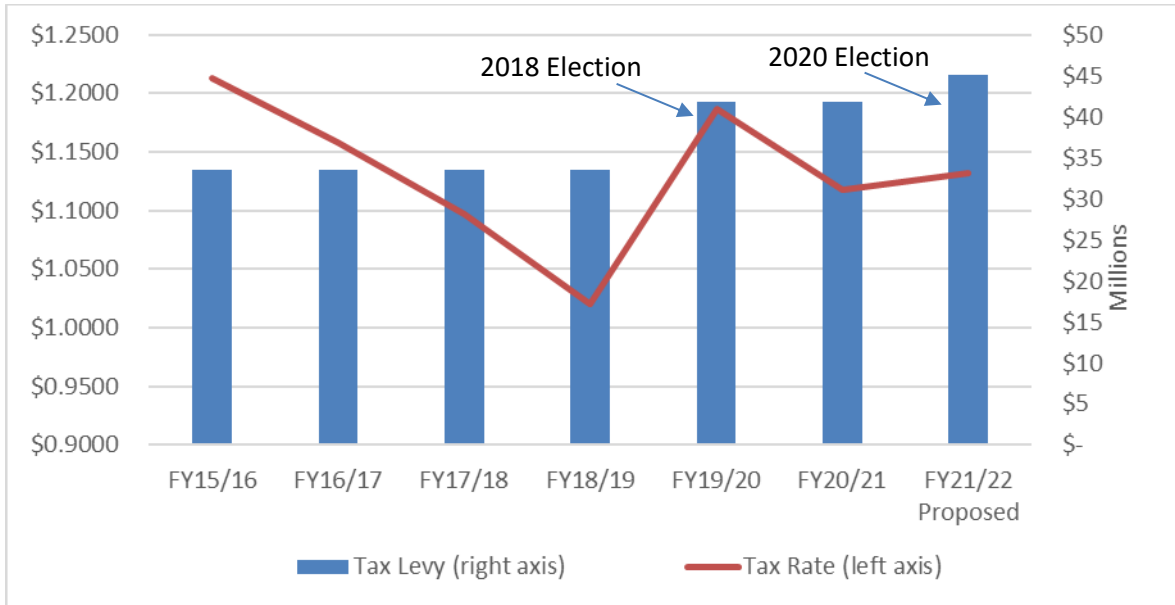
The proposed FY 2021-22 property tax is levied to pay debt service payments for all the following:

- Street/Transportation bonds approved by Mesa voters in 2008, 2013, and 2020
- Public Safety bonds approved by Mesa voters in 2008, 2013, and 2018
- Parks and Culture (including Library) bonds approved by Mesa voters in 2012 and 2018
- Court, Public Safety, Library, Parks, and Streets bonds issued before 2008. The City Council has previously approved the use of secondary property tax revenue to pay debt service on bonds approved by Mesa voters prior to 2008 in order to free up General Fund revenues to pay for City operating costs including two City

fire stations which opened in FY 2009-10 and FY 2012-13.

A seven-year comparison of the City's secondary property tax levy and tax rate is shown in Figure 4 below.

Figure 4. Seven-Year Comparison of Tax Levy and Tax Rate



The tax levy was adjusted in FY 2019-20 for the impact of general obligation bonds authorized in 2018 and is proposed to be adjusted in FY 2021-22 for the impact of the 2020 bond approval.

Discussion

Property Tax Calculation

Property tax is calculated as follows:

$$\text{property value} * \text{tax rate} = \text{tax levy}$$

A property's value is determined annually by either the County Assessor or State Department of Revenue. The property tax rate is set by governing bodies as a dollar amount per \$100 of taxable value. The property tax levy is the property value multiplied by the tax rate and equates to the dollar amount of property tax owed.

Property Value

Arizona property owners pay property tax based in proportion to the value (ad valorem) of the property. The property value used for one fiscal year is based on market values from around two years prior to allow time for review and appeals. For example, the assessed value used in FY 2021-22 is based on property valuations from mid-2018 to

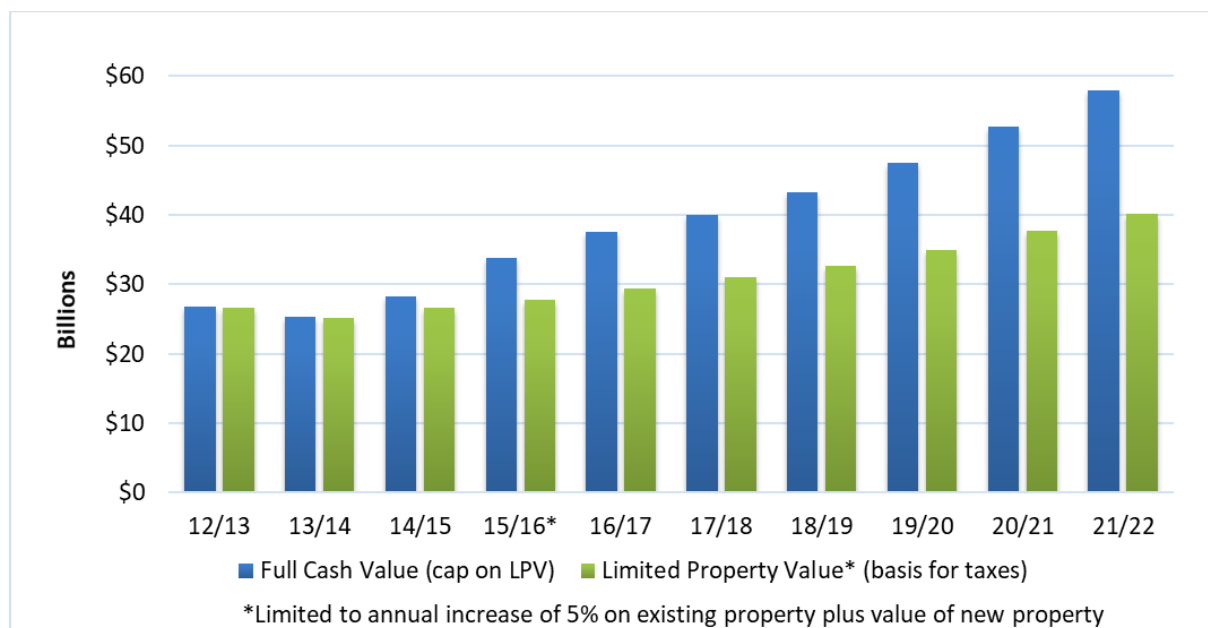
mid-2019.

Each parcel of property in Arizona is given a full cash value (FCV), which is based on the market value. Each parcel also has a limited property value (LPV), which is used for property tax purposes.

A new full cash value (FCV) is determined annually and does not have an annual increase restriction. For most property types, the limited property value (LPV) is increased by 5% each year but cannot exceed the full cash value (FCV). For all types of property, limited property value (LPV) cannot exceed full cash value (FCV).

The use of limited property value (LPV) for property tax purposes moderates the short-term impact of rapid property value increases. Figure 5 below shows both the full cash value (FCV) and limited property values (LPV) in Mesa for the past decade.

Figure 5. City of Mesa – Property Value by Fiscal Year



The full cash value (FCV) of property in the City used for FY 2021-22 increased by 10%.

Taxable Property

The limited property value (LPV) is used as a starting point to calculate the taxable value of a property. An assessment ratio is applied to the limited property value (LPV) based on property classification to determine a property's "assessed value" (AV). The assessment ratio is 10% for residential property, 18% for commercial property, and 15% for vacant land.

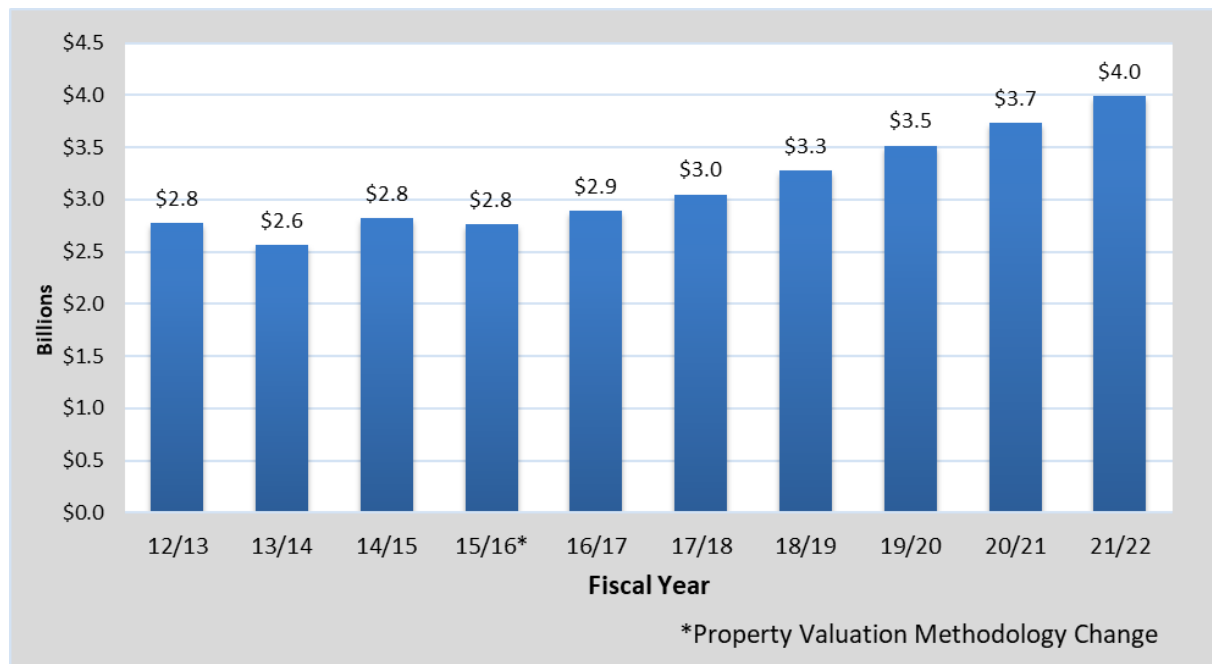
Exempt property (not-for-profit, governmental, etc.) is netted (subtracted) out of the assessed value (AV), resulting in a property's "net assessed value" (NAV). Net assessed value (NAV) calculated from limited property value (LPV) is the value of the property that is taxable. See the taxable property value calculation in Figure 6 below.

Figure 6. Taxable Property Value Calculation

$$\begin{array}{rcl}
 \text{Limited Property Value (LPV)} & & \\
 \times & & \\
 \text{Assessment Ratio (10\% for residential)} & & \\
 \hline
 = & & \\
 \text{Assessed Value (AV)} & & \\
 - & & \\
 \text{Exemptions} & & \\
 \hline
 = & & \\
 \text{Net Assessed Value (NAV) – taxable value} & &
 \end{array}$$

City of Mesa taxable value for recent fiscal years is shown in Figure 7 below.

Figure 7. City of Mesa – Taxable Value by Fiscal Year



Estimated FY 2021-22 median values of a Mesa residential property are shown in Figure 8 below.

Figure 8. City of Mesa FY 2021-22 – Estimated Median Property Values

Property Value	Median Value	Description
Limited Property Value (LPV)	\$150,000	Taxable value; limited to 5% annual growth
Full Cash Value (FCV)	\$229,000	Upper limit on taxable value; a percentage of sale value
Sale Value (estimate)	\$279,000	Estimated sale price (when valued in 2018 or 2019)

Alternatives

The Council may choose not to levy a secondary property tax or to levy any rate and amount less than proposed. A reduction to the proposed levy and rate would necessitate the payment of general obligation debt service with the General Fund, which would draw down reserves or require reductions to General Fund services provided by the City (police, fire/medical, library, parks, etc.).

The property tax levy cannot be greater than proposed because secondary property tax can only be used to pay for general obligation debt service and the proposed levy is sufficient to fully fund general obligation debt service due in FY 2021-22.

Fiscal Impact

The secondary property tax levy is an important piece in maintaining the fiscal stability of the City. Adopting the proposed secondary property tax levy and rate would allow the City to meet its general obligation debt service obligations as planned.